

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6788

BILL NUMBER: HB 1183

NOTE PREPARED: Jan 8, 2008

BILL AMENDED:

SUBJECT: Historic Rehabilitation Income Tax Credit.

FIRST AUTHOR: Rep. Dvorak

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that the Historic Rehabilitation Income Tax Credit may be assigned. It provides that the credit may be recaptured from the person who receives the certification or from an assignee to whom the property is transferred. The bill also increases the annual limit of the credit from \$450,000 to \$2,500,000. It replaces the current definition of "taxpayer" for purposes of the historic rehabilitation credit.

Effective Date: Upon passage; July 1, 2008.

Explanation of State Expenditures: *Department of State Revenue (DOR)* -The DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes in the tax credit and tax deduction. The DOR's current level of resources should be sufficient to implement these changes. The January 1, 2008, state vacant position report indicates the DOR has 115 vacant full-time positions.

Explanation of State Revenues: *Summary-* The bill allows a taxpayer who is entitled to claim the Historic Rehabilitation Tax Credit to assign any portion of the credit to another taxpayer. It also increases the aggregate amount of credits that may be claimed each year from \$450,000 to \$2,500,000 beginning July 1, 2008, thereby reducing revenue from the state Adjusted Gross Income (AGI) tax by \$2,050,000 annually.

According to the Department of Natural Resources (DNR), the number of projects approved for credits in recent years totaled: (1) 8 in 2005; (2) 10 in 2006; and (3) 8 in 2007. In each of these years, the \$450,000 aggregate credit limit was reached. Currently, tax credits to the annual aggregate credit limit have been certified each year through FY 2018. This translates into approximately \$5.40 M in tax credits to be claimed against future tax liabilities. The DNR reports that until 1999 the overall value of credit applications has been

3:1, or \$1.35 M, in regard to the available credits allocated annually whereas most recently this ratio has been 1:1, or \$450,000.

Expansion of the aggregate credit cap will allow for more timely use of the credits, which means the revenue loss will be greater and the impact will be noticed sooner than if the cap was not expanded. This bill's provisions would allow a taxpayer to assign credits and recoup the creditable rehabilitation expenditures immediately, giving them capital to use on rehabilitation, while potentially still allowing the assignee to use the credits in the same taxable year.

Background- Current statute provides for a nonrefundable AGI Tax credit for individual and corporate taxpayers equal to 20% of the historic preservation or rehabilitation expenditures made by the taxpayer. The expenditures must exceed \$10,000 and must be certified by the DNR. Current statute prohibits the aggregate amount of credits claimed by taxpayers during a fiscal year from exceeding \$450,000. The tax credit is nonrefundable, but excess credits may be carried forward for 15 years. The tax credit may not be carried back.

Explanation of Local Expenditures:

Explanation of Local Revenues: If the expansion of these credits encourage more investments, the communities in which these buildings are located may realize an increase in the assessed value of property and eventually lower the property tax rates in these areas.

State Agencies Affected: Department of State Revenue; Department of Natural Resources.

Local Agencies Affected: All.

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